

Message Text

UNCLASSIFIED

PAGE 01 LONDON 15016 01 OF 02 151909Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-03 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-02 H-02 PA-02 PRS-01 USIA-15 /100 W

----- 124095

R 151855Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5757

UNCLAS SECTION 01 OF 02 LONDON 15016

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: REACTIONS TO THE BUDGET

REF: LONDON 14819, 14864, 14865, 14938

SUMMARY. IN GENERAL, THE BUSINESS SECTOR FOUND CHANCELLOR HEALEY'S NOVEMBER 12 BUDGET WANTING, WHILE THE LABOR UNIONS REACTED MORE WARMLY. GOVERNMENT SECURITY PRICES FELL DRASTICALLY IN THE LATTER PART OF THE WEEK AND DRAGGED EQUITY PRICES DOWN WITH THEM. THE POUND ALSO FELL ON THE FOREIGN EXCHANGE MARKETS. PRESS REACTION HAS BEEN VARIED BUT NOT OVERLY CRITICAL; MOST PAPERS SAW THE BUDGET AS A STEP IN THE RIGHT DIRECTION. PREDICTABLY, THE CONSERVATIVES AND LIBERALS DIDN'T LIKE THE BUDGET.
END SUMMARY

1. REACTION FROM THE BUSINESS SECTOR HAS BEEN GENERALLY CRITICAL, THOUGH SOME INDUSTRIAL BUSINESSMEN HAVE VIEWED IT AS GENERALLY A GOOD BUDGET. THE CONFEDERATION OF BRITISH INDUSTRY (CBI), INDUSTRY'S SPOKESMAN IN THESE MATTERS, CALLED HEALEY'S MEASURES "A MISSED OPPORTUNITY".

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 15016 01 OF 02 151909Z

CBI DOUBTS THAT THE INCREASED CASH FLOW FOR INDUSTRY

GIVEN BY RELAXATION OF THE PRICE CODE AND MODIFICATIONS OF THE CORPORATE TAX REGULATIONS IS ENOUGH "TO PROVIDE INDUSTRY WITH THE CASH IT NEEDS." (CBI HAD RECOMMENDED THAT 2.4 BILLION POUNDS WAS NEEDED BY INDUSTRY IN THE PRESENT FINANCIAL YEAR AND OVER 3 BILLION POUNDS NEXT FINANCIAL YEAR; THE BUDGET PROVIDES FOR 1.6 BILLION POUND IN CALENDAR 1975.) CBI STATES THAT GIVEN THE INSUFFICIENT MEASURES IT IS NOW CONCERNED THAT UNEMPLOYMENT MAY RISE. CBI AND OTHERS EXPRESSED WORRY THAT SMALL COMPANIES WOULD SUFFER MOST, AND THE BRITISH CHAMBERS OF COMMERCE STATED HEALEY WAS "LAYING THE FOUNDATION, NOT FOR A NEW STYLE ECONOMY, BUT FOR HIS FIRST BUDGET IN L975."

2. LABOR UNION REACTION WAS "MIXED," WITH THE TUC STATING GENERAL APPROVAL BUT WITH CONCERN ABOUT THE LIKELY PRICE RISES RESULTING FROM HEALEY'S PROMISE TO PHASE OUT SUBSIDIES HOLDING DOWN PRICES IN NATIONALIZED INDUSTRY. AFFILIATED UNIONS WERE LESS WARM IN THEIR REACTIONS BUT NONE ATTACKED IT ON GENERAL GROUNDS. MOST WERE CONCERNED ABOUT THE PROSPECT OF PRICE RISES BY NATIONALIZED INDUSTRIES AND BY THE STRICT LIMITS ON GROWTH OF PUBLIC EXPENDITURE. THE LATTER IS THOUGHT TO PROBABLY RESULT IN UNEMPLOYMENT IN THE PUBLIC SECTOR. ONE LEFT WING UNION LEADER HAS PUBLICLY ATTACKED THE INCREASED MEDIUM-TERM LOAN FACILITY FOR INDUSTRY.

3. THE NEWSPAPERS GENERALLY SEE THE BUDGET AS MOVING ON THE RIGHT COURSE, BUT MOST FEEL THE PROVISIONS INCREASING INDUSTRY'S CASH FLOW ARE INADEQUATE. THE FINANCIAL TIMES EDITORIAL, ENTITLED "IN THE RIGHT DIRECTION," IS CAUTIOUS BUT GENERALLY RECEPTIVE TO THE BUDGET PROPOSALS SAYING "COMPANIES ... HAVE BEEN ALLOWED CONSIDERABLE CONCESSIONS." THE TIMES, NOT TO BE ACCUSED OF ORIGINALITY, ENTITLES THEIR LEAD EDITORIAL, "A STEP IN THE RIGHT DIRECTION;" THE TIMES CALLS THE PRICE CODE CHANGES "SENSIBLE," AND SUPPORTS THE CHANCELLOR ON HIS REFUSAL TO CUT THE CORPORATION TAX. THE TIME'S MAIN CONCERN IS THE EFFECT OF THE BUDGET ON THE SOCIAL CONTRACT. THE GUARDIAN IS A BIT MORE GUARDED IN ITS REACTION WONDERING WHAT

UNCLASSIFIED

PAGE 03 LONDON 15016 01 OF 02 151909Z

THE PRACTICAL EFFECT OF HEALEY'S MEASURES WILL BE, PARTICULARLY ON DEMAND. THE GUARDIAN FEARS THAT, EVEN WITHOUT THE RISE IN NATIONALIZED INDUSTRY PRICES FORESEEN IN THE BUDGET, THE MILD STIMULUS GIVEN TO DEMAND COULD TURN OUT TO BE "VERY SMALL."

4. THE CONSERVATIVES AND LIBERALS BELIEVE THEY COULD HAVE DONE BETTER. IN HIS OPENING REBUTTAL, CONSERVATIVE

LEADER HEATH WORRIED ABOUT THE CHANCELLOR'S STATMENT THAT THE ALTERNATIVE TO A SUCCESSFUL "SOCIAL COMPACT" IS MASSIVE UNEMPLOYMENT. MR. HEATH ALSO VOICED CONCERN ABOUT THE CHANCELLOR'S OMISSION OF SPECIFIC DETAILS ON WHAT THE PRICE FOR GASOLINE WILL BE AFTER THE INCREASE IN

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 15016 02 OF 02 151909Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-03 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-02 H-02 PA-02 PRS-01 USIA-15 /100 W

----- 124161

R 151855Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5758

UNCLAS SECTION 02 OF 02 LONDON 15016

VAT ON IT. SHADOW CHANCELLOR ROBERT CARR LATER IN THE DEBATE STATED THAT HEALEY HAD CREATED A "KIDNEY-MACHINE RECOVERY," SAYING THE HELP TO THE BUSINESS SECTOR WAS TOO LITTLE AND THAT FUTURE ASSISTANCE WILL BE REQUIRED. THE BUDGET ONLY RECTIFIES LABOR GOVERNMENT ERRORS OVER THE PAST 8 MONTHS AND FAILS TO FIGHT INFLATION ACCORDING TO HEATH AND CARR. THE LIBERALS INTRODUCED AN AMENDMENT CONDEMNING THE RISE IN VAT ON GASOLINE WHICH WAS DEFEATED BY A LARGE MAJORITY.

5. THE LABOR PARTY LEFT REACTED COOLY TO THE BUDGET. THEY WERE SILENT DURING ITS DELIVERY AND AFTERWARDS WORRIED ABOUT THE BUDGET'S GENERAL DIRECTION I.E., THE ATTEMPT TO STIMULATE DEMAND THROUGH ASSISTANCE TO THE COMPANY SECTOR, THE RISE IN VAT ON GASOLINE AND IN

NATIONALIZED INDUSTRY PRICES, AND THE CURB ON PUBLIC EXPENDITURE GROWTH WHICH IS LIKELY TO MEAN SOME CUTS IN SOCIAL PROGRAMS.

6. THE MARKETS REACTED ADVERSELY AT FIRST BUT LATE IN THE WEEK SOME RECOVERED. THE GILT MARKET (GOVERNMENT SECURITIES) FELL DRASTICALLY IN RESPONSE TO HEALEY'S
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 15016 02 OF 02 151909Z

ANNOUNCEMENT IN THE BUDGET SPEECH THAT THE PUBLIC SECTOR BORROWING REQUIREMENT IN FINANCIAL YEAR 1974/75 WILL BE 6.3 BILLION POUNDS. PRICES FELL AT THE PROSPECT OF PROSPECTIVE LARGE OFFERINGS OF GILTS OVER THE NEXT SIX MONTHS. THE MARKET RECOVERED SOMEWHAT ON THURSDAY. EQUITIES FELL ALONG WITH GILTS, PROBABLY IN SYMPATHY WITH THEM, AND AT THE PROSPECT OF RISING INTEREST RATES RESULTING FROM LARGE SCALE SALES OF GILTS. THE POUND DEPRECIATED IN THE FOREIGN EXCHANGE MARKET AGAINST THE DOLLAR AND ON AN AVERAGE TRADE-WEIGHTED BASIS, TO A 10 MONTH LOW. DEALERS HAVE ASCRIBED THE EXCHANGE MARKET DIFFICULTIES TO THE BUDGET ANNOUNCEMENT THAT THE STERLING AREA GUARANTEES WILL NOT BE RENEWED, SAYING THAT THE MARKET REGARDS THIS AS A SIGN THAT THE UK GOVERNMENT EXPECTS A DETERIORATION OF STERLING OVER THE NEXT 6-9 MONTHS. THE POUND RECOVERED AGAINST THE DOLLAR ON THURSDAY BUT CONTINUED TO WEAKEN, ON AVERAGE, AGAINST MAJOR TRADING PARTNERS.

SPIERS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, ECONOMIC DEVELOPMENT, ECONOMIC PROGRAMS, TRADE DATA, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 15 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON15016
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740330-0986
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741140/aaaabhsn.tel
Line Count: 202
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: LONDON 14819, 14864, 14865, 14938
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 13 NOV 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 NOV 2002 by boyleja>; APPROVED <14-Nov-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REACTIONS TO THE BUDGET
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005